

CITY OF MONTEZUMA, IOWA

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

June 30, 2014

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City of Montezuma, Iowa
City Officials
Year Ended June 30, 2014

<u>Name</u>	<u>Title</u> (Before January 2014)	<u>Term</u> <u>Expires</u>
James M. Hicks	Mayor	January, 2016
Frank R. Brownell, III	Mayor Pro Tem	January, 2016
Ronald Willrich	Appointed Council Member	January, 2014
Curtis Bolen	Council Member	January, 2014
Aaron Mc Caslen	Council Member	January, 2016
Corey Simpson	Council Member	January, 2016
Meryll Hicks	Clerk/Treasurer	Indefinite
Gilbert R. Caldwell III	Attorney	Indefinite
(After January 2014)		
James M. Hicks	Mayor	January, 2016
Frank R. Brownell, III	Mayor Pro Tem	January, 2016
Ronald Willrich	Council Member	January, 2018
Curtis Bolen	Council Member	January, 2018
Aaron Mc Caslen	Council Member	January, 2016
Corey Simpson	Council Member	January, 2016
Christy Mc Caslen	Clerk/Treasurer	Indefinite
Gilbert R. Caldwell III	Attorney	Indefinite



705 Main Street
Pella, IA 50219
Ph.: 641-628-3737
Fax: 641-628-3757

www.vanmaanencpa.com

Van Maanen, Sietstra, Meyer & Nikkel, PC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
City of Montezuma
Montezuma, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ending June 30, 2013 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and Budgetary Comparison Information on pages 5-9 and 27-28 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 5, 2014, on our consideration of the City of Montezuma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Montezuma's internal control over financial reporting and compliance.

Van Maanen, Sietstra, Meyer & Nikkel PC

Van Maanen, Sietstra, Meyer & Nikkel, PC
Certified Public Accountants

September 5, 2014

The City of Montezuma provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 48.6%, or approximately \$1,242,000, from fiscal 2013 to 2014. The decrease is due largely to \$1,215,000 in loan proceeds in 2013 and no loan proceeds in 2014.
- Disbursements of the City's governmental activities increased 28.1%, or approximately \$470,000 from fiscal 2013 to fiscal 2014. Debt service expenditures were up \$625,000 due to a crossover refunding payment.
- The City's total cash basis net position decreased 20.4%, or approximately \$1,125,000 from June 30, 2013 to June 30, 2014. The current year governmental activities decreased \$830,000 and the net position of the business type activities decreased \$295,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about indebtedness, changes in fiduciary assets and liabilities and a comparative schedule of receipts and disbursements.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general governmental, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the water works, sanitary sewer, recycling, and gas systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax Fund, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide information for the water, sewer, recycling, and gas funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from approximately \$3.333 million to approximately \$2.504 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
(Expressed in thousands)		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service	\$ 108	125
Operating grants, contributions and restricted interest	182	186
Capital grants, contributions and restricted interest	75	44
General receipts:		
Property tax	608	572
Tax increment financing	-	-
Local Option Sales Tax	140	132
Grants and contributions not restricted to specific purposes	-	-
Payment in lieu of taxes	56	57
Unrestricted interest earnings	3	4
Miscellaneous	55	71
Sale of Assets	-	151
Bond proceeds	-	1,215
Total receipts	1,227	2,557
Disbursements:		
Public safety	436	197
Public works	249	353
Culture and recreation	128	127
Community and economic development	54	
General government	152	220
Debt service	858	233
Capital projects	268	545
Total disbursements	2,145	1,675
Change in cash basis net position before transfers	(918)	882
Transfers, net	89	-
Change in cash basis net position	(829)	882
Cash basis net position beginning of year	3,333	2,451
Cash basis net position end of year	\$ 2,504	3,333

The City's total receipts and transfers for governmental activities decreased by 48.6%, or approximately \$1,242,000. The decrease in receipts is mainly due to \$1,215,000 in loan proceeds received in 2013 and no loan proceeds received in 2014. The total cost of all programs and services increased by approximately \$470,000 or 28.1%. The increase in programs and services was primarily due to a debt service expenditure for a crossover refunding payment.

The cost of all governmental activities this year was \$2.145 million compared to \$1.675 million last year. However, as shown in the Statement of Activities and Net Position on page 11, the amount taxpayers ultimately financed for these activities was only \$1.780 million because some of the cost was paid by those directly benefiting from the programs (\$108,000) or by other governments and

City of Montezuma, Iowa
Management's Discussion and Analysis
June 30, 2014

organizations that subsidized certain programs with grants, contributions and restricted interest (\$256,000). Overall, the City's governmental activities program receipts increased in 2014 from approximately \$355,000 to approximately \$365,000. The City paid for the remaining "public benefit" portion of governmental activities (\$950,000) with taxes (some of which could only be used for certain programs) and other receipts, such as interest, and general entitlements.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in thousands)		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 694	763
Sewer	119	120
Recycling	64	63
Gas	1,475	1,129
General receipts:		
Unrestricted interest earnings	1	1
Other general receipts	-	15
Loan proceeds	-	300
Total receipts	2,353	2,391
Disbursements:		
Water	647	967
Sewer	342	88
Recycling	62	62
Gas	1,508	774
Total disbursements	2,559	1,891
Change in cash basis net assets before transfers	(206)	500
Transfers, net	(89)	-
Change in cash basis net position	(295)	500
Cash basis net position beginning of year	2,188	1,688
Cash basis net position end of year	\$ 1,893	2,188

Total business type activities receipts for the fiscal year were approximately \$2.353 million compared to \$2.391 million last year. Total disbursements and transfers for the fiscal year increased 40.0% to a total of \$2.648 million, mainly due to increased gas fund expenditures.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Montezuma completed the year, its governmental funds reported a combined fund balance of \$2,503,512, a decrease of \$829,580 from last year's total of \$3,333,092.

- The General Fund cash balance decreased \$156,982 from the prior year to \$1,637,318.
- The Debt Service Fund cash balance decreased \$622,644 from the prior year to (\$30,851).
- The Capital Projects Fund cash balance decreased \$268,140 from the prior year to (\$43,762).

City of Montezuma, Iowa
Management's Discussion and Analysis
June 30, 2014

- The Special Revenue, Local Option Sales Tax Fund increased \$137,073 from the prior year to \$529,897. Capital projects paid through the Local Option Sales Tax Fund were \$-0- this year end and \$155,232 last year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$48,617 to \$810,709.
- The Sewer Fund cash balance decreased by \$313,054 to \$193,514.
- The Recycling Fund cash balance increased by \$2,003 to \$65,941, which is similar to last year.
- The Gas Fund cash balance decreased by \$32,535 to \$822,502.

BUDGETARY HIGHLIGHTS

The City's budget was amended during the year for additional public safety, community and economic development, capital projects and business type activities disbursements.

The City's receipts were \$286,108 more than budgeted, primarily in charges for services.

The City's disbursements were \$121,443 less than budgeted, expenditures were under budget primarily in the business type activity function. Expenditures exceeded the budget for fiscal year 2014 in the public safety and debt service functions. The higher costs in debt service were primarily due to a crossover refunding payment.

DEBT ADMINISTRATION

At June 30, 2014, the City had approximately \$2,974,000 in bonds and other long-term debt, compared to approximately \$3,858,000 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	June 30,
	2014	2013
General obligation bonds	\$ 1,155	1,965
Water Revenue-SRF Loan	1,819	1,893
Total	\$ 2,974	3,858

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,155,000 is below its total calculated constitutional debt limit of approximately \$3.6 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Montezuma's elected and appointed officials considered many factors when calculating the fiscal year 2015 budget. The amounts levied for property taxes in the original budget filed with the state increased by 8.14% resulting in an additional \$47,374. The increase in property tax will be used to satisfy the City's debt service obligations.

COMPONENT UNIT

The separately issued financial statements for the Montezuma Municipal Light and Power Plant, listed as a component unit on these financial statements, is also available by contacting Christy Mc Caslen, City Clerk, at the address listed below.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Christy Mc Caslen, City Clerk, 501 East Main St., Box 314, Montezuma, Iowa 50171.

Basic Financial Statements

City of Montezuma, Iowa
Statement of Activities and Net Position - Cash Basis
As of and for the year ended June 30, 2014

	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets						
	Program Receipts				Primary Government		Component Unit
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Primary government:							
Governmental activities:							
Public safety	\$ 436,460	104,153	13,761	56,300	(262,246)	-	(262,246)
Public works	248,618	-	145,986	-	(102,632)	-	(102,632)
Culture and recreation	127,869	6	22,130	-	(105,733)	-	(105,733)
Community and economic development	53,821	-	-	18,721	(35,100)	-	(35,100)
General government	152,067	3,853	-	-	(148,214)	-	(148,214)
Debt service	857,907	-	-	-	(857,907)	-	(857,907)
Capital Projects	268,145	-	-	5	(268,140)	-	(268,140)
Total governmental activities	2,144,887	108,012	181,877	75,026	(1,779,972)	-	(1,779,972)
Business type activities:							
Water	647,241	694,008	-	-	-	46,767	46,767
Sewer	341,894	118,797	-	-	-	(223,097)	(223,097)
Recycling	61,891	63,885	-	-	-	1,994	1,994
Gas	1,508,175	1,475,265	-	-	-	(32,910)	(32,910)
Total business type activities	2,559,201	2,351,955	-	-	-	(207,246)	(207,246)
Total primary government	\$ 4,704,088	2,459,967	181,877	75,026	(1,779,972)	(207,246)	(1,987,218)
Component Unit:							
Municipal Light and Power Plant	\$ 3,126,861	3,429,453	-	-	-	-	302,592
	\$ 3,126,861	3,429,453	-	-	-	-	302,592
General Receipts:							
Property tax levied for:							
General purposes				\$ 373,711	-	373,711	-
Debt service				233,989	-	233,989	-
Local option sales tax				140,143	-	140,143	-
Payment in lieu of taxes				55,421	-	55,421	-
Unrestricted interest on investments				3,183	1,026	4,209	3,946
Miscellaneous				55,196	-	55,196	25,180
Transfers				88,749	(88,749)	-	-
Total general receipts and transfers				950,392	(87,723)	862,669	29,126
Change in cash basis net position				(829,580)	(294,969)	(1,124,549)	331,718
Cash basis net position beginning of year				3,333,092	2,187,635	5,520,727	2,704,808
Cash basis net position end of year				\$ 2,503,512	1,892,666	4,396,178	3,036,526
Cash Basis Net Position							
Restricted:							
Non-expendable:							
Library Permanent Fund				\$ 3,500	-	3,500	-
Expendable:							
Public Streets				407,410	-	407,410	-
Debt service/improvements				-	164,058	164,058	729,529
Memorials/Designated Contributions				33,062	-	33,062	-
Other purposes				529,897	-	529,897	199,000
Unrestricted				1,529,643	1,728,608	3,258,251	2,107,997
Total cash basis net position				\$ 2,503,512	1,892,666	4,396,178	3,036,526

See notes to financial statements.

City of Montezuma, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2014

	General	Debt Service	Capital Projects	Special Revenue		Non-major-Perm Fund	Total
				Local Option Sales Tax	Road Use		
Receipts:							
Property tax	\$ 373,711	233,989	-	-	-		607,700
Other city tax	-	-	-	140,143	-		140,143
Licenses and permits	2,013	-	-	-	-		2,013
Use of money and property	3,706	1,274	5	43	-		5,028
Intergovernmental	34,263	-	-	-	145,986		180,249
Charges for service	104,159	-	-	-	-		104,159
Private contributions	76,649	-	-	-	-		76,649
Miscellaneous	110,617	-	-	-	-		110,617
Total receipts	705,118	235,263	5	140,186	145,986	-	1,226,558
Disbursements:							
Operating:							
Public safety	436,460	-	-	-	-		436,460
Public works	180,632	-	-	3,113	64,873		248,618
Culture and recreation	127,869	-	-	-	-		127,869
Community & Economic Development	53,821	-	-	-	-		53,821
General government	152,067	-	-	-	-		152,067
Debt service	-	857,907	-	-	-		857,907
Capital projects	-	-	268,145	-	-		268,145
Total disbursements	950,849	857,907	268,145	3,113	64,873	-	2,144,887
Excess (deficiency) of receipts over (under) disbursements	(245,731)	(622,644)	(268,140)	137,073	81,113		(918,329)
Other financing sources:							
Transfers In	90,000	-	-	-	-		90,000
Transfers Out	(1,251)	-	-	-	-		(1,251)
Total other financing sources	88,749	-	-	-	-	-	88,749
Net change in cash balances	(156,982)	(622,644)	(268,140)	137,073	81,113		(829,580)
Cash balances beginning of year	1,794,300	591,793	224,378	392,824	326,297	3,500	3,333,092
Cash balances end of year	\$ 1,637,318	(30,851)	(43,762)	529,897	407,410	3,500	2,500,012
Cash Basis Fund Balances							
Nonspendable - permanent endowment library	\$ -	-	-	-	-	3,500	3,500
Restricted for:							
Debt service	-	-	-	-	-		-
Public Streets	-	-	-	-	407,410		407,410
Klindt memorial	1,652	-	-	-	-		1,652
Fire Department memorial	23,380	-	-	-	-		23,380
Library Building	8,030	-	-	-	-		8,030
Other purposes	-	-	-	529,897	-		529,897
Unassigned	1,604,256	(30,851)	(43,762)	-	-		1,529,643
Total cash basis fund balances	\$ 1,637,318	(30,851)	(43,762)	529,897	407,410	3,500	2,503,512

See notes to financial statements.

Exhibit C

City of Montezuma, Iowa

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances

To the Statement of Activities and Net Position

Governmental Funds

As of and for the year ended June 30, 2014

Total governmental funds cash balances (Exhibit A)	\$ 2,503,512
Cash basis net position of governmental activities (Exhibit B)	\$ 2,503,512
Change in cash balances (Exhibit B)	\$ (829,580)
Change in cash basis net position of governmental activities (Exhibit A)	\$ (829,580)

See notes to financial statements.

Exhibit D

City of Montezuma, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2014

	Enterprise Funds				Total
	Water	Sewer	Recycling	Gas	
Operating receipts:					
Charges for service	\$ 694,008	118,797	63,885	1,475,265	2,351,955
Miscellaneous	-	-	-	-	-
Total operating receipts	694,008	118,797	63,885	1,475,265	2,351,955
Operating disbursements:					
Business type activities	511,719	341,894	61,891	1,508,175	2,423,679
Total operating disbursements	511,719	341,894	61,891	1,508,175	2,423,679
Excess (deficiency) of operating receipts over (under) operating disbursements	182,289	(223,097)	1,994	(32,910)	(71,724)
Non-operating receipts (disbursements):					
Interest on investments	599	43	9	375	1,026
SRF Loan Proceeds	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Debt Service	(135,522)	-	-	-	(135,522)
Capital projects	-	-	-	-	-
Total non-operating receipts (disbursements)	(134,923)	43	9	375	(134,496)
Excess (deficiency) of receipts over (under) disbursements	47,366	(223,054)	2,003	(32,535)	(206,220)
Transfers in	1,251	-	-	-	1,251
Transfers (out)	-	(90,000)	-	-	(90,000)
Net change in cash balances	48,617	(313,054)	2,003	(32,535)	(294,969)
Cash balances beginning of year	762,092	506,568	63,938	855,037	2,187,635
Cash balances end of year	\$ 810,709	193,514	65,941	822,502	1,892,666
Cash Basis Fund Balances					
Restricted					
Debt Service	\$ 164,058	-	-	-	164,058
Unrestricted	646,651	193,514	65,941	822,502	1,728,608
Total cash basis fund balances	\$ 810,709	193,514	65,941	822,502	1,892,666

See notes to financial statements.

Exhibit E

City of Montezuma, Iowa

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances

To the Statement of Activities and Net Position

Proprietary Funds

As of and for the year ended June 30, 2014

Total enterprise funds cash balances (Exhibit D)	\$ 1,892,666
Cash basis net position of business type activities (Exhibit A)	<u>\$ 1,892,666</u>
Net change in cash balances (Exhibit D)	<u>\$ (294,969)</u>
Change in cash balance of business type activities (Exhibit A)	<u>\$ (294,969)</u>

See notes to financial statements.

Exhibit F

City of Montezuma, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Component Unit
As of and for the year ended June 30, 2014

	<u>Municipal Light and Power Plant</u>
Operating receipts:	
Charges for service	\$ 3,429,453
Total operating receipts	<u>3,429,453</u>
Operating disbursements:	
Business type activities	<u>2,709,968</u>
Total operating disbursements	<u>2,709,968</u>
Excess of operating receipts over operating disbursements	719,485
Non-operating receipts (disbursements):	
Rental income	20,772
Interest on investments	3,946
Miscellaneous	4,408
Miscellaneous expense	(2,725)
Debt service	(414,168)
Total non-operating disbursements	<u>(387,767)</u>
Excess of receipts over disbursements	<u>331,718</u>
Net change in cash balances	331,718
Cash balances beginning of year	<u>2,704,808</u>
Cash balances end of year	<u><u>\$ 3,036,526</u></u>
Cash Basis Fund Balances	
Reserved for debt service/improvements	\$ 729,529
CMMPA required deposit	199,000
Unreserved	<u>2,107,997</u>
Total cash basis fund balances	<u><u>\$ 3,036,526</u></u>

See notes to financial statements.

Exhibit G

City of Montezuma, Iowa
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2014

	<u>Agency</u>
Assets	
Cash and investments	<u>\$ (44,452)</u>
Total assets	<u>(44,452)</u>
Liabilities	
Accounts payable	<u>(44,452)</u>
Total liabilities	<u>(44,452)</u>
Net assets	<u><u>\$ -</u></u>

See notes to financial statements.

(1) **Summary of Significant Accounting Policies**

The City of Montezuma is a political subdivision of the State of Iowa located in Poweshiek County. It was first incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, recycling and gas utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Montezuma has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Montezuma (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

The Montezuma Municipal Light and Power Plant is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a five member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Poweshiek County Assessor's Conference Board and Poweshiek County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Position presents the City's non-fiduciary net position. Net position is reported in the following categories/components:

Non-expendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position result when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

Special Revenue:

The Local Option Sales Tax Fund is used to account for local option sales tax collections and expenditures as specified in the election to collect those taxes.

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise, Gas Fund accounts for the operation and maintenance of the City's gas system.

The Enterprise, Recycling Fund accounts for the operation and maintenance of the City's recycling program.

C. Measurement Focus and Basis of Accounting

The City of Montezuma maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financials statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceed the amounts budgeted in the public safety and debt service functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Included in the June 30, 2014 general fund cash is \$30,868 in library donations and earnings and \$3,500 in library endowment donations, both held in trust by the Montezuma Community Foundation. The \$30,868 is available for use by the library whenever requested by the library board. The \$3,500 may not be spent; only earnings from those contributions will be available.

At June 30, 2014 the City had the following investments:

Type	Carrying Amount	Fair Value
Certificate of deposit	\$ 45,000	45,000
Certificate of deposit	20,000	20,000
Certificate of deposit	39,151	39,151
Certificate of deposit	25,870	25,870
Certificate of deposit	34,564	34,564
Total	<u>\$ 164,585</u>	<u>164,585</u>

In addition, the City had investments in the Iowa Public Agency Trust which are valued at an amortized cost of \$2,657,474 pursuant to Rule 2 a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Trust is unrated.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and water revenue bonds are as follows:

	General		Revenue Bonds			
Year ending	Obligation Note 2013		Water		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2015	255,000	15,465	76,000	54,570	331,000	70,035
2016	260,000	12,915	78,000	52,290	338,000	65,205
2017	260,000	10,315	81,000	49,950	341,000	60,265
2018	60,000	7,325	84,000	47,520	144,000	54,845
2019	60,000	6,425	86,000	45,000	146,000	51,425
2020	65,000	5,525	89,000	42,420	154,000	47,945
2021	65,000	4,225	92,000	39,750	157,000	43,975
2022	65,000	2,925	95,000	36,990	160,000	39,915
2023	65,000	1,463	98,000	34,140	163,000	35,603
2024	-	-	101,000	31,200	101,000	31,200
2025	-	-	105,000	28,170	105,000	28,170
2026	-	-	108,000	25,020	108,000	25,020
2027	-	-	111,000	21,780	111,000	21,780
2028	-	-	115,000	18,450	115,000	18,450
2029	-	-	119,000	15,000	119,000	15,000
2030	-	-	123,000	11,430	123,000	11,430
2031	-	-	127,000	7,740	127,000	7,740
2032	-	-	131,000	3,930	131,000	3,930
Total	\$ 1,155,000	66,583	1,819,000	565,350	2,974,000	631,933

A. General Obligation Bonds

The City of Montezuma issued \$1,215,000 in general obligation bonds October 30, 2013. Of the total general obligation bonds issued, \$595,000 was for the purpose of advance refunding, which includes \$575,000 of principle plus some of the interest on the September 2007 general obligation bond debt Crossover refunding and \$620,000 was for the purpose of funding the South Diamond Subdivision Capital Project. The total principal and interest payments remaining on the general obligation bond issue is \$1,221,583 payable through 2023.

B. Revenue Notes

The City of Montezuma entered into a Water Revenue loan and Disbursement agreement with the State Revolving Fund. The City has pledged future water customer receipts, net of specified operating disbursements to repay this loan. The April 1, 2011 loan is being received by the City as funds are expended with a maximum loan of \$2,125,000 available. As of June 30, 2013, \$1,963,734 had been extended and the loan was finalized. The interest rate over the loan's life is 3%. The bonds mature June 1, 2032. Interest payments are payable semiannually on June 1 and December 1 of each year, commencing June 1, 2011. The principal is due and payable annually commencing June 1, 2013, and annually thereafter.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts with the Enterprise funds for the purpose of making the note principal and interest payments when due.
- (c) All funds remaining in the water account after the payment of all maintenance and operating expenses and required transfers shall be placed in a water revenue surplus account within the Enterprise Funds. This account is to be used to transfer money to the sinking fund whenever necessary to prevent or remedy a default in the payment of principal or interest. As long as the sinking fund has the full amounts required any balance in the surplus fund is available to be used as needed for the operation of the utility.

Total interest and fees charged to expense during the fiscal year was \$103,946 and \$5,483 respectively. None was associated with product financing arrangements or capitalized enterprise fund assets.

(4) Pension and Retirement Benefits

The City of Montezuma contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012, were \$38,096, \$39,711, and \$35,144, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – There are three medical/prescription drug plans which provide benefits for retirees and their spouses. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

There are six active employees in the City's plan, three active employees in the Water department's plan and four active employees in the Electric Utility's plan at year end. There were no early retirees in any of the plans.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums are as follows:

	Single	Employee/Spouse	Employee/Child	Family
City	\$ 583	1,194	1,103	1,789
Water Department	583	1,194	1,103	1,789
Electric Utility	583	1,194	1,103	1,789

The same monthly premiums apply to retirees, which they are required to pay in full. For the year ended June 30, 2014, the City contributed \$97,439 and plan members eligible for benefits contributed any additional cost over the cost of a single plan. The Water Department contributed \$55,669 and plan members eligible for benefits contributed \$0 to the plan. The Electric Utility contributed \$50,059 and plan members contributed \$0 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2014 is \$15,366. This liability has been computed based on rates in effect at June 30, 2014.

(7) Interfund Transfers

The following are interfund transfers during the year ended June 30, 2014:

Transfer to:	Transfer from:	Amount
General	Sewer	\$ 90,000
Water	General	1,251

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Transactions Between the City and the Component Unit

The following are significant transactions between the City of Montezuma and the Montezuma Light and Power Plant:

Transaction Description	From City to Municipal Utility	From Municipal Utility to City
Water Dept. Electric Use	\$ (22,338)	-
Water Dept. Billing/Meter Reading	(13,173)	-
Water Dept bills paid by Electric	(4,979)	-
Gas Dept. Electric Use	(1,207)	-
Gas Dept. Billing/Meter Reading	(13,173)	-
Gas Dept. bills paid by Electric	(5,658)	-
General City Electric Use	(43,330)	-
Sewer/Recycling Billing	(2,100)	-
City bills paid by Electric	(5,248)	-
Computer Maintenance	(10,216)	-
Power Plants - Taxes in lieu	-	55,421
Totals	\$ (121,422)	55,421

The Municipal Utility's personnel do the meter reading and billing for the electric, water and gas departments. The City then reimburses the Municipal Utility for their share of those costs.

(9) Related Party Transactions

The City had business transactions between the City and City officials, employees and associates totaling \$317,332 during the year ended June 30, 2014.

(10) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's (including the water and gas departments) contributions to the Pool for the year ended June 30, 2014 were \$36,292.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location. Property risks exceeding \$150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's fund and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. The City does not report liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2014, no liability has been recorded in the City's financial statements. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from IMWCA for coverage associated with workers compensation in the amount of \$1,000,000 per claim. Excess coverage is provided through reinsurance with no cap per section 85 of the Iowa Code. The City assumed liability for any deductibles and claims in excess of coverage limitations. The City (including the water and gas departments) paid \$18,155 for the year ended June 30, 2014 for this insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Commitments and Contingencies

On December 6, 2006, the City of Montezuma Light & Power plant entered into a prorata investment in the Central Minnesota Municipal Power Agency's CAPX2020 Investment. The component unit has a contingent liability for \$238,617, or 0.88% of a \$27,115,533 investment by CMMPA. As of June 30, 2014, none of this had been paid. To date revenues have covered the costs on this investment so CMMPA has not required the funds, but Montezuma Light & Power plant remains committed to this payment if needed.

(12) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statements No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The

revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

Other Information

City of Montezuma, Iowa
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances
Budgetary and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2014

	Budgeted Amounts					
	Governmental Funds Actual	Proprietary Funds Actual	Net	Original	Final	Final to Net Variance
Receipts:						
Property tax	\$ 607,700	-	607,700	605,013	605,013	2,687
Tax increment financing collections	-	-	-	-	-	-
Other city tax	140,143	-	140,143	130,708	130,708	9,435
Licenses and permits	2,013	-	2,013	2,825	2,825	(812)
Use of money and property	5,028	25,744	30,772	3,395	3,395	27,377
Intergovernmental	180,249	-	180,249	142,000	167,000	13,249
Charges for services	104,159	5,781,408	5,885,567	5,180,880	5,732,169	153,398
Private contributions	76,649	-	76,649	-	-	76,649
Miscellaneous	110,617	4,408	115,025	110,900	110,900	4,125
Total receipts	1,226,558	5,811,560	7,038,118	6,175,721	6,752,010	286,108
Disbursements:						
Public safety	436,460	-	436,460	199,065	231,565	(204,895)
Public works	248,618	-	248,618	407,434	407,434	158,816
Health & Social Services	-	-	-	2,500	2,500	2,500
Culture and Recreation	127,869	-	127,869	157,260	157,260	29,391
Community & economic development	53,821	-	53,821	20,000	120,000	66,179
General government	152,067	-	152,067	234,780	234,780	82,713
Debt service	857,907	-	857,907	283,357	283,357	(574,550)
Capital projects	268,145	-	268,145	-	500,000	231,855
Business type activities	-	5,686,062	5,686,062	4,838,986	6,015,496	329,434
Total disbursements	2,144,887	5,686,062	7,830,949	6,143,382	7,952,392	121,443
Excess (deficiency) of receipts over (under) disbursements	(918,329)	125,498	(792,831)	32,339	(1,200,382)	407,551
Other financing sources, net	88,749	(88,749)	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(829,580)	36,749	(792,831)	32,339	(1,200,382)	407,551
Balances beginning of year	3,333,092	4,892,443	8,225,535	6,456,740	7,274,885	950,650
Balances end of year	\$ 2,503,512	4,929,192	7,432,704	6,489,079	6,074,503	1,358,201

See accompanying independent auditor's report.

City of Montezuma, Iowa
Notes to Other Information - Budgetary Reporting
June 30, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues and other sources by \$577,541 and disbursements by \$1,810,262. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the public safety and debt service functions.

Supplementary Information

Schedule 1

City of Montezuma, Iowa
Schedule of Indebtedness
Year ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest & Fees Paid	Interest Due and Unpaid
General obligation bonds:									
Street	9/1/2007	3.8-4.2%	\$1,615,000	\$ 750,000		750,000	-	31,592	-
Housing project & refunding	10/30/2012	1-2.25%	\$1,215,000	\$ 1,215,000	-	60,000	1,155,000	16,315	1,289
				<u>\$ 1,965,000</u>	<u>-</u>	<u>810,000</u>	<u>1,155,000</u>	<u>47,907</u>	<u>1,289</u>
Water Revenue Notes:									
SRF-Series 2011	4/1/2011	3.00%	\$1,963,734	\$ 1,893,000	-	74,000	1,819,000	61,522	4,548
				<u>\$ 1,893,000</u>	<u>-</u>	<u>74,000</u>	<u>1,819,000</u>	<u>61,522</u>	<u>4,548</u>

Schedule 2

City of Montezuma, Iowa
Bond and Note Maturities
Year ended June 30, 2014

Year Ending June 30,	General Obligation bonds		SRF	
	Housing Project & Refunding		Water Revenue Bonds	
	Issued 10-30-2012		Issued 4-1-2011	
	Interest Rates	Amount	Interest Rates	Amount
2015	1.00%	255,000	3.00%	76,000
2016	1.00%	260,000	3.00%	78,000
2017	1.15%	260,000	3.00%	81,000
2018	1.50%	60,000	3.00%	84,000
2019	1.50%	60,000	3.00%	86,000
2020	2.00%	65,000	3.00%	89,000
2021	2.00%	65,000	3.00%	92,000
2022	2.25%	65,000	3.00%	95,000
2023	2.25%	65,000	3.00%	98,000
2024			3.00%	101,000
2025			3.00%	105,000
2026			3.00%	108,000
2027			3.00%	111,000
2028			3.00%	115,000
2029			3.00%	119,000
2030			3.00%	123,000
2031			3.00%	127,000
2032			3.00%	131,000
		<u>\$ 1,155,000</u>		<u>1,819,000</u>

See accompanying independent auditor's report.

Schedule 3

City of Montezuma, Iowa

Schedule of Changes in Fiduciary Assets and Liabilities

Agency Fund

June 30, 2014

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ (31,202)	7,000	20,250	(44,452)
Liabilities				
Accounts payable	\$ (31,202)	7,000	20,250	(44,452)

See accompanying independent auditor's report.

City of Montezuma, Iowa
Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds
For the Last Ten Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Receipts:										
Property tax	\$ 607,700	572,150	577,547	543,152	556,514	538,865	508,001	480,742	476,022	459,199
Tax increment financing collections	-	-	-	6,779	47,711	48,184	47,695	45,124	43,733	46,885
Other taxes	140,143	132,326	150,447	130,827	130,600	128,568	166,417	-	-	986
Licenses & permits	2,013	1,994	4,325	2,913	2,485	2,725	2,830	-	-	-
Use of money and property	5,028	7,422	6,748	17,806	10,519	28,516	82,230	75,417	41,662	29,397
Intergovernmental	180,249	159,930	163,456	145,670	194,512	245,238	353,343	121,433	122,541	122,047
Charges for service	104,159	119,828	89,422	80,913	88,211	97,647	81,596	82,222	89,033	74,911
Miscellaneous	187,266	197,276	167,951	142,295	146,363	180,486	153,127	97,860	103,531	481,620
Total	\$ 1,226,558	1,190,926	1,159,896	1,070,355	1,176,915	1,270,229	1,395,239	902,798	876,522	1,215,045
Disbursements:										
Operating:										
Public safety	\$ 436,460	196,727	281,151	178,712	183,285	286,586	325,039	164,930	260,458	159,325
Public works	248,618	352,875	355,719	326,212	224,066	270,817	259,360	241,578	193,131	201,900
Health and social services	-	-	-	-	-	-	-	2,750	-	2,500
Culture and recreation	127,869	127,053	134,210	143,730	186,233	117,837	114,126	108,146	126,386	399,413
Community & economic development	53,821	-	-	-	-	-	151,878	-	-	-
General government	152,067	219,590	194,967	141,931	114,141	106,235	109,311	104,242	103,364	100,203
Debt service	857,907	233,229	204,876	251,373	282,731	285,994	334,911	165,895	169,962	169,803
Capital projects	268,145	545,352	-	-	-	358,000	1,405,527	-	-	-
Total	\$ 2,144,887	1,674,826	1,170,923	1,041,958	990,456	1,425,469	2,700,152	787,541	853,301	1,033,144

See accompanying independent auditor's report.

City of Montezuma
Montezuma, Iowa



705 Main Street
Pella, IA 50219
Ph.: 641-628-3737
Fax: 641-628-3757

www.vanmaanencpa.com

Van Maanen, Sietstra, Meyer & Nikkel, PC
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed In Accordance with
Government Auditing Standards**

To the Honorable Mayor and Members of the City Council
City of Montezuma
Montezuma, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 5, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Montezuma's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Montezuma's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Montezuma's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Montezuma's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item (A) to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Montezuma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Montezuma's Responses to Findings

The City of Montezuma's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Montezuma's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Audit Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Montezuma during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen, Sietstra, Meyer & Nikkel PC

Van Maanen, Sietstra, Meyer & Nikkel, PC
Certified Public Accountants

September 5, 2014

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2014 exceeded the budget in the public safety and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- (2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- (3) Travel Expense - No disbursements of City of Montezuma money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions

Business transactions between the City and City officials, employees or associates for the year ended June 30, 2014 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Hicks, Mayor, Owner Owner of Jim's Heating & Air Conditioning	Heating System & Repairs	\$397
Doug Vermeer, Trustee of Montezuma Light & Power Owner of Vannoy Chevrolet	New vehicle Vehicle repairs & maintenance	\$34,321 2,378
Corey Simpson, City Councilman Proprietor	Pesticide application	\$600

Charlie Sheets, Trustee of Montezuma		
Light & Power	Excavating work	\$265,224
Owner of Sheets Excavating	Storm sewer repairs	
John Bushong, Trustee of Montezuma		
Light & Power	Debris Filter Pit &	\$14,412
Owner of Bushong Contruction	Supplies & repairs	

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the Trustees may represent conflicts of interest since total transactions with each of these individuals were more than \$1,500 during the fiscal year. The bulk of the transactions, however, with Sheets Excavating does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (6) Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds and Notes - The City of Montezuma has established proper accounts as required by the City revenue note resolution.
- (9) Financial Condition – The Debt Service and Capital Projects Funds had a deficit balances of \$30,851 and \$43,762 respectively, at June 30, 2014.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – The Debt Service deficit will be eliminated through a fund transfer that was approved and occurred after year end. the Capital Projects fund deficit was due to engineering and grant administration costs incurred prior to the receipt of Iowa CDBG funding. The City will receive the grant monies in fiscal year 2015, eliminating the deficit.

Conclusion – Response accepted.